



DEFENSE CONTRACT AUDIT AGENCY
DEPARTMENT OF DEFENSE
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IN REPLY REFER TO

PSP 730.5.1.A/2010-034

October 18, 2010
10-PSP-030(R)

MEMORANDUM FOR REGIONAL DIRECTORS, DCAA
DIRECTOR, FIELD DETACHMENT, DCAA
HEADS OF PRINCIPAL STAFF ELEMENTS, HQ, DCAA

SUBJECT: Increased Thresholds for Price Proposal Audits

SUMMARY

As part of the Department's efforts to appropriately align DCAA audit resources to those areas with the greatest risk, the DFARS Procedures, Guidance and Information (PGI), has been revised to limit contracting officers' requests for DCAA audit assistance to Fixed-Price proposals exceeding \$10 million and Cost-Type proposals exceeding \$100 million, unless there are exceptional circumstances explained in the request for audit. When future requests for audit are associated with prime contractor proposals below the revised thresholds, FAO management personnel should generally refer the requestor to the Defense Contract Management Agency (DCMA) for appropriate field pricing assistance. The revised thresholds do not apply to assist audit requests requested by another DCAA office. Assist audit requests below the PGI thresholds shall be completed using appropriate audit procedures for incorporation into the higher level audit report. Auditors will complete all in-process price proposal audits that are below the revised thresholds. The revisions to the PGI do not impact the requirement for cost or pricing data as that threshold remains at \$700,000 as of October 1, 2010.

BACKGROUND

Recently, oversight organizations have recommended that the Department of Defense and DCAA assess the use of DCAA resources to ensure the DCAA audit effort is focused on the areas with the greatest risk to the taxpayer. One of the priorities undertaken by DCAA this year was to better align workload requirements with available resources. Coordination within DoD resulted in agreement that DCAA should target its resources on high risk proposals to best serve our stakeholders.

GUIDANCE

Effective September 17, 2010, DFARS, PGI 215.404-2(c), now limits contracting officer requests for audit services to Fixed-price proposals over \$10 million and Cost-Type proposals over \$100 million, unless there are exceptional circumstances explained in the request for audit (see enclosure).

PSP 730.5.1.A/2010-034

SUBJECT: Increased Thresholds for Price Proposal Audits

When a request for audit services related to a prime contractor price proposal under the revised threshold is received, the supervisory auditor or branch manager should refer the requesting official to DCMA for field pricing assistance. However, if the request is based on exceptional circumstances, auditors should coordinate with the requester in order to gain a thorough understanding of the exceptional circumstances that necessitate an audit. This discussion should be documented in the working papers.

The revised policy thresholds do not apply to assist audit requests received from another DCAA office. Assist audit requests below the PGI thresholds shall be completed using appropriate audit procedures for incorporation into the higher level audit report. In these instances, the higher level auditor or contracting officer has determined that the risk is such that audit procedures should be performed on the subcontract proposal. Therefore, the prime/higher level auditor will continue to evaluate each subcontract proposal and supporting data to determine the need for any subcontract/intracompany assist audits, as discussed in CAM 9-104 and 9-105.

The PGI thresholds noted above apply to the total proposal value. Therefore, auditors should satisfy requests for audits of part(s) of a proposal as long as the total proposal value exceeds the related threshold even though the parts subject to audit may not. In addition, auditors will continue to assist DCMA in their pricing analysis, if deemed necessary, by responding to requests for forward pricing rate proposal audits or available cost or rate data even if the FAO expects few or no price proposals over the audit thresholds.

CLOSING REMARKS

FAO personnel should direct questions regarding this memorandum to their regional offices, and regional personnel should direct any questions to Pricing and Special Projects Division, at (703)-767-3290 or e-mail at DCAA-PSP@dcaa.mil.

/Signed/
Kenneth J. Saccoccia
Assistant Director
Policy and Plans

Enclosure:
DFARS, PGI 215.404-2

DISTRIBUTION: C

DFARS Procedures, Guidance, and Information

PGI 215.404-2 Information to support proposal analysis.

- (a) Field pricing assistance.
 - (i) The contracting officer should consider requesting field pricing assistance (See PGI 215.404-2(c) for when audit assistance should be requested) for—
 - (A) Fixed-price proposals exceeding the cost or pricing data threshold;
 - (B) Cost-type proposals exceeding the cost or pricing data threshold from offerors with significant estimating system deficiencies (see DFARS 215.407-5-70(a)(4) and (c)(2)(i)); or
 - (C) Cost-type proposals exceeding \$10 million from offerors without significant estimating system deficiencies.
 - (ii) The contracting officer should not request field pricing support for proposed contracts or modifications in an amount less than that specified in paragraph (a)(i) of this subsection. An exception may be made when a reasonable pricing result cannot be established because of—
 - (A) A lack of knowledge of the particular offeror; or
 - (B) Sensitive conditions (e.g., a change in, or unusual problems with, an offeror's internal systems).
- (c) Audit assistance for prime contracts or subcontracts.
 - (i) The contracting officer should consider requesting audit assistance from DCAA for—
 - (A) Fixed-price proposals exceeding \$10 million;
 - (B) Cost-type proposals exceeding \$100 million.
 - (ii) The contracting officer should not request DCAA audit assistance for proposed contracts or modifications in an amount less than that specified in paragraph (c)(i) of this subsection unless there are exceptional circumstances explained in the request for audit. (See PGI 215.404-2(a)(i) for requesting field pricing assistance without a DCAA audit.)
 - (iii) If, in the opinion of the contracting officer or auditor, the review of a prime contractor's proposal requires further review of subcontractors' cost estimates at the subcontractors' plants (after due consideration of reviews performed by the prime contractor), the contracting officer should inform the administrative contracting officer (ACO) having cognizance of the prime contractor before the review is initiated.

- (iv) Notify the appropriate contract administration activities when extensive, special, or expedited field pricing assistance will be needed to review and evaluate subcontractors' proposals under a major weapon system acquisition. If audit reports are received on contracting actions that are subsequently cancelled, notify the cognizant auditor in writing.

- (v) Requests for audit assistance for subcontracts should use the same criteria as established in paragraphs (c)(i) and (c)(ii) of this subsection.